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TO: Legislative Audit Committee Members

FROM: Jim Pellegrini, Deputy Legislative Auditor, Performance Audits

DATE: October 2004

RE: Follow-up Performance Audit - 04SP-22
Children's Health Insurance Plan (CHIP) (Original Report 02P-03)
Department of Public Health and Human Services

INTRODUCTION

We presented our performance audit of the Department of Public Health and Human Services (DPHHS) Children's Health Insurance Plan (CHIP) to the Legislative Audit Committee in November 2002. The Child and Adult Health Resources Division within DPHHS administers the program. Overall, we found CHIP was administered in an efficient manner and key areas of operation were well organized. Audit testing revealed program operations complied with related federal and state requirements. Our audit identified three areas where the department could improve administration and operation of CHIP. The recommendations contain eight specific parts. Recommendations relate to:

- Improve the process used to estimate CHIP applicant's annual family income.
- Refine the system used by department management to override the automated waiting list function.
- Streamline the application process.

We requested and received information from DPHHS personnel regarding progress toward implementation of our report recommendations. We then interviewed DPHHS personnel, reviewed related documentation, and conducted observations to verify implementation of each recommendation. This memo provides background information and our conclusion on each recommendation's implementation status.

Overview

According to the department's response, six recommendations have been implemented, one recommendation partially implemented, and one recommendation not implemented. It appears the department is working toward implementation of all recommendations and once the new computer system is in use the partially implemented recommendation will be fully implemented. The department did not implement one recommendation because the application's format is not web-based compatible.

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BACKGROUND

Congress created the State CHIP in August 1997. The plan was designed to expand health insurance coverage to children from working families with incomes too high to qualify for Medicaid, but too low to afford private insurance. Individual state programs are funded with a combined federal – state match. Montana's federal share for CHIP is 81 percent and is among the highest in the nation. It requires a corresponding state match of 19 percent. DPHHS began Montana's CHIP as a pilot plan in December 1998. This allowed 940 children to be enrolled in the plan. Montana's CHIP was fully operational in fiscal year 2001 and 9,700 children were enrolled in the plan. As of October 1, 2004, CHIP is providing insurance to 10,900 children and approximately 196 children are on the waiting list. Enrollment in Montana's CHIP is limited by state funding constraints.

Informational outreach efforts by the department generated so much interest in the plan that CHIP enrollment has been at maximum capacity since January 2001. As a result, children eligible for the plan are placed on a waiting list until a vacancy occurs and they can be enrolled in the insurance plan. It appears, outreach efforts have lead to a doubling of children 18 years or younger deemed eligible for Medicaid. Youth who were Medicaid eligible for an entire year in 2002 (22,559) increased 10,324 from those eligible in 2001 (12,235).

PROGRAM UPDATES

Since the release of our audit, program funding for the state's share of CHIP expenses continues to be an issue. In addition, recent questions have arisen regarding how the CHIP insurance provider uses the proceeds realized from the contract with DPHHS. The following sections provide updated information.

Program Funding

Actions taken to limit spending during the 2003 and 2005 biennia impacted DPHHS and the department initiated cutbacks to services including CHIP. CHIP enrollment cap was lowered to 9,500 children. As a result of this action, the number of eligible applicants waiting for CHIP coverage rose to a record 1,260 children in October 2003. In response to the growing number of children awaiting coverage, the Governor approved the transfer of $609,000 General Fund to CHIP in November 2003. These funds were used to:

- Increase the enrollment cap.
- Eliminate the waiting list.
- Maintain existing income eligibility limits.

This one-time-only transfer of funds was possible because of federal funds available from the Jobs and Growth Tax Relief Reconciliation Act. This allowed the department to provide services to additional children through the end of fiscal year 2004.

DPHHS negotiates an annual contract between the state and the CHIP medical insurance provider, Blue Cross Blue Shield of Montana (BCBS). During contract negotiations in October 2004, the insurance provider agreed to return $1.9 million from the company's insurance reserves to CHIP. The funds will sustain the program at current levels through the end of fiscal year 2005.

Insurance Provider Use of Premiums

Contract provisions specify a Per Member Per Month (PMPM) medical premium the department pays for insurance services. The insurance provider uses CHIP insurance premiums to pay all the associated costs it incurs in paying claims and administering the plan. This includes medical expenses incurred by CHIP recipients, administrative and overhead expenses, and establishing a reserve account. Insurance reserve accounts are designed to protect the fund against losses, for example from catastrophic or unforeseen medical claims. State law mandates these reserve accounts.

Contracts for years 1999 through 2003 did not specify limits on administration, nor did they address reserves. However, documents from BCBS to DPHHS during the years 1999 through 2002 were clear to the state that the accumulated reserves belonged to CHIP and could be used to mitigate premium increases. In 2003, BCBS decided the reserves did not belong to CHIP. Pressure from advocates and the department convinced BCBS to return $1.9 million of the accumulated reserves and 75 percent of the reserves from the 2003-2004 contract year (amount to be determined in January after all claims are paid).

The contract between BCBS and DPHHS signed for the contract year October 1, 2004, through September 30, 2005, limits BCBS's administration to $16.10 PMPM. Two percent of this amount is a "risk charge" and is the amount an insurance plan takes to assume the risk that paid claims will not exceed premiums paid. The new contract also specifies that if going forward, premiums paid, less administration, less claims paid, yield money left (reserves), the state can use the reserves to take a premium holiday or to mitigate a premium increase for the following year. If the contract ends, however, the reserves stay with BCBS.

A complaint was submitted to Centers for Medicare and Medicaid Services (CMS) by a taxpayer, regarding BCBS's use of the reserves and the fact that BCBS's administration rate exceeds that allowed by federal law. CMS is currently investigating the complaint. A ruling is anticipated in November 2004.

The department contracts with an actuarial firm to conduct an analysis of CHIP premiums prior to the annual renegotiation of the contract with BCBS. The actuarial study provides the department with an objective, third-party assessment of the reasonableness of the proposed premium. The actuarial firm examines overall financial health of the insurance company including assessment of the fund's reserve account. The actuarial study conducted for the current contract period concurred the premium amount stated in the contract was reasonable. During contract negotiations, the department is aware of the balance in the reserve fund and any associated projections. Contract negotiations allow the department to play a role in decisions regarding the reserve fund, but the contract does not assign the department specific powers to direct the allocation of fund resources.

Federal regulations provide the framework for program spending and include a limit that no more than 10 percent of the federal grant can be used for administrative overhead. This requirement limits the amount that states can spend on program administration. It does not apply to how insurance companies elect to spend the premiums they earned by providing CHIP insurance.

SUMMARY OF IMPLEMENTATION STATUS

The following table shows the implementation status of the recommendations made in the audit. Most recommendations were implemented.

Recommendation Status	
Implemented	6
Partially Implemented	1
Not Implemented	1
TOTAL	**8**

Prior Recommendation #1

A. We recommend the Department of Public Health and Human Services expand the policy regarding calculating annual income to include guidelines for determining an average income.

Implemented

In response to our recommendation the department added information to its policy in regards to calculating annual income. In addition, a revised electronic eligibility system is scheduled to be in operation in October 2004, and information regarding calculating annual income will become automated.

B. We recommend the Department of Public Health and Human Services provide for periodic, on-going training of staff that focuses on estimating annual income of applicants.

Implemented

The department has begun periodic training of staff on the revised electronic eligibility system. The system will calculate annual income requirements. Staff will input income data and how often income is earned.

C. We recommend the Department of Public Health and Human Services implement a quality control system that includes periodic supervisory review of a sample of applications processed by staff.

Implemented

To assure quality control over applications processed by the staff, CHIP supervisors spot check a sample of applications for correct processing.

D. We recommend the Department of Public Health and Human Services make the notes section of the computer system used to assist with screening applicant eligibility a compulsory field for documenting eligibility decisions.

Partially Implemented

Program management elected not to modify the current eligibility system and spend money to hire programming services since the system was due to be replaced. Instead, management ensured the new computer eligibility system allows for income information to be entered as it appears on the application. The Eligibility Screening System (TESS) notes will not be needed to explain calculations; the new system has the logic built in.

Prior Recommendation #2

A. We recommend the Department of Public Health and Human Services expand department policy relating to the CHIP waiting list to include specific guidance for the override function.

Implemented

The department now has policy on eligibility overrides.

B. We recommend the Department of Public Health and Human Services develop a process to document any waiting list overrides performed by department management.

Implemented

The department's current system uses TESS notes to document overrides to the automated waiting list. Management occasionally performs overrides when circumstances dictate – such as when an application is delayed due to an error by the department. The new system will have a report feature, which will identify who performed the eligibility override and what applicant received the override. This feature will ensure waiting list overrides are thoroughly documented.

Prior Recommendation #3

A. Revise the universal application so it is compatible with a web-based format and post this form on its website.

Not Implemented

The department complied with the intent of the recommendation, which was to eliminate the use of two different CHIP applications. Department staff now relies solely on the universal application. The department was unable to post the application on its web site because the format of the application is not web-based compatible. Although the department was unable to post the CHIP application on its web site, directions for obtaining applications are provided. This includes a toll-free phone number potential applicants can call to request an application. The site also includes a link to e-mail CHIP program staff.

B. Notify local Offices of Public Assistance to discontinue use of the CHIP-only application.

Implemented

This recommendation was implemented immediately after the auditors discussed their findings with program managers. The CHIP-only application is no longer used and DPHHS relies solely on the universal application for CHIP.